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A Cafta Failure Would Harm All Free Trade

By WILLIAM RHODES

The US faces a number of challenges and opportunities that could have far-reaching effects on the way it does business with its Latin American neighbours.

One of these is the Central American Free Trade Agreement between the US and Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica and the Dominican Republic. The Cafta legislation comes before the Senate Finance Committee and the House Ways and Means Committee in two weeks' time. Congress will then have 15 days to vote on the bill. President George W. Bush has urged legislators to back Cafta. They should. It is good for the US and good for Central America.

The Central American signatories have made tremendous strides towards democracy and open market economic policies since the 1970s and 1980s when political violence and strife was common in the region. As a result, they have become close allies of the US and trusted suppliers of agricultural products and manufactured goods.

What was true in Europe and Japan after the second world war is equally true in Central America today: the development of nations once traumatised by conflict requires economic opportunity and hope for a better life. Without such hope, hard-won democratic gains will increasingly be called into question and perhaps lost. While opponents of Cafta argue that that is too dramatic, the reality is that the US and the Cafta countries have the opportunity to help their societies improve their competitive positions in the global economy and achieve higher sustained growth.

Cafta is the logical conclusion of a generation of policy initiatives between the US and Central America, beginning with President Ronald Reagan's 1983 Caribbean Basin Initiative, which was subsequently expanded by President Bill Clinton in 2000. The rationale was simple: US national interests are directly served by supporting Central

American democracy through social development underwritten by economic growth. The initiative is a unilateral programme of market access granted by the US, giving Central American and Caribbean neighbours a base from which to diversify their economies.

For the first time, Cafta will make the relationship reciprocal, promising new opportunities for US workers and farmers. This year, without Cafta, 80 per cent of Central American and Dominican Republic goods enter the US duty free. With Cafta, trade would be fairer: 80 per cent of US industrial goods and 50 per cent of US agricultural products would enter Central America and the Dominican Republic duty free, with remaining barriers eliminated over time.

Beyond market access, Cafta enhances transparency in governance, requiring laws to be well publicised; consistently, fairly and predictably applied; and subject to due process. Such provisions are critical to US business and the further development of free markets in areas such as financial services and manufacturing. They also strengthen democracy.

Some opponents of Cafta decry the state of working conditions in Central America while others bemoan what they see as the dismantling of the trade sugar subsidies programme. But such criticisms have been blown out of proportion. Working conditions are not perfect, but it is enforcement of existing laws that will bring about change. And the best way to encourage such action is by providing the tools necessary so that the countries in question have the resources to devote to enforcement.

Similarly, the US Chamber of Commerce has stated that the amount of sugar that would come into the US under Cafta amounts to approximately one and a half teaspoons per person per week - hardly consistent with talk of agricultural apocalypse that has been bandied about in Washington.

And last, but not least, the failure of Cafta could endanger these countries' hard-won democracies and their economies, and could potentially create national security problems for the US.

More broadly, if the US cannot pass an agreement that is unambiguously in its national interest with six nations that are historically close to it, what are the prospects of completing the Doha round at the World Trade Organisation, where trade in goods and services is of much greater consequence to the US economy? In the end, if the US is afraid to send goods and services to Central America, we might as well get ready to pay a higher price in Central America, in Latin America as a whole, and in global US trade policy.

The writer is chairman of the Council of the Americas, senior vice-chairman of Citigroup and chairman of Citicorp and Citibank.